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Department stores adapt to survive in the difficult retail landscape

Article

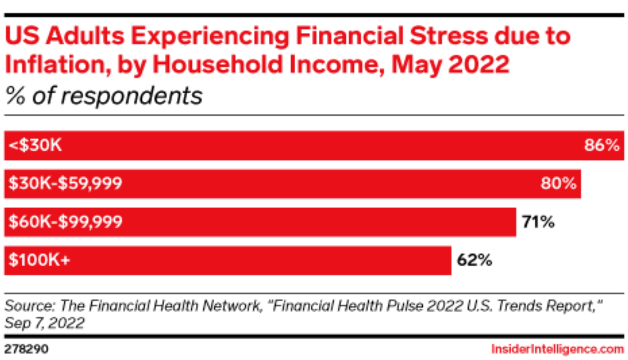
The trend: Department stores are shifting their strategies as they try to appeal to cash-strapped shoppers and adjust to the difficult macroeconomic environment.

- **Macy's** is focused on maximizing operational efficiencies and using data science to get ahead of shifts in consumer spending, CEO **Jeff Gennette** said at the National Retail Federation's Big Show.

- **Neiman Marcus Group** plans to invest $200 million in its stores over three years as part of its strategy to double down on luxury and premium in-store experiences, per a press release.
- **Hudson's Bay Company** unveiled a proposal to turn the top three floors of **Saks Fifth Avenue**'s Manhattan flagship into a casino, per The New York Times, in a bid to make the department store more than just a shopping destination.

Macy's futureproofs: Gennette said that while the company is taking a cautious approach after seeing more pronounced lulls during the holiday season, Macy's is prepared to "pounce when opportunities and signals present themselves."

- The retailer continues to mine its credit card data to assess consumers' financial health, as well as identify where their spending priorities are going into 2023. Currently, Macy's sees balances and delinquencies building—a worrisome sign for a company dependent on discretionary spending.
- At the same time, the department store is relying more heavily on data and pricing science to identify what shoppers are or will be buying, as well as the appropriate pricing and inventory strategy to avoid excessive markdowns.
- Finally, Macy's continues to invest in its supply chain to maximize flexibility. The retailer has diversified supply chains away from China, partnered with **UPS** to speed up fulfillment and last-mile delivery, and turned about 1 million square feet of unusable store space into 35 regional warehouses.



Neiman Marcus courts wealthy shoppers: Neiman Marcus is leaning further into luxury to differentiate itself from the "mushy middle" department stores bearing the brunt of reduced discretionary spending.

- The retailer announced two new roles, chief brand officer and chief retail officer, as it focuses on the development and execution of unique, engaging omnichannel experiences that strengthen the brand's appeal to affluent audiences.
- Neiman Marcus' $200 million investment will also go toward expanding its personal shopping service and adding more food and beverage concepts to its stores as it vies to become a "lifestyle destination for the luxury consumer."

The big picture: Department store closures are expected to outpace the industry average in 2023, per a UBS analysis reported by Retail Dive, as the sector faces rising competition from off-price and discount stores, as well as luxury retailers.

- Department store sales fell by 2.9% month-over-month in November, the third-straight month of decline, per Labor Department data.
- As discretionary spending comes under pressure, more retailers will have to follow in Saks Fifth Avenue's and Neiman Marcus' footsteps and try to reinvent themselves as experiential destinations.
- Despite the headwinds, department stores must continue to invest in their supply chain, digital channels, and fulfillment capabilities to ensure they can compete in the long term.

*This article originally appeared in Insider Intelligence's **Retail & Ecommerce Briefing**—a daily recap of top stories reshaping the retail industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

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